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# U.S. SIGNAL Inc.

June 15, 1994

Mr. Reed Hundt, Chairman  
Federal Communications Commission  
1919 M St., N.W.  
Suite 814  
Washington, DC 20554

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FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF SECRETARY

Dear Mr. Hundt:

In the FCC's Second Report and Order regarding PCS licensing, it is stated that in establishing eligibility criteria and bidding methodologies, the Commission shall promote "economic opportunity and competition by avoiding excessive concentration of licenses and by disseminating licenses among a wide variety of applicants, including small businesses, rural telephone companies, and businesses owned by members of minority groups and women."

U.S. Signal Inc. comments that the current proposed auction rules for broadband PCS do not adequately satisfy Section 47 U.S.C. 309 (j)(4)(D) as Congress has mandated.

At the FCC Small Business Advisory Committee meeting on June 13, 1994, Dr. Simo (the independent consultant to the Committee) speculated that bidding on broadband PCS would cost approximately \$ 0.20 per pop per MHz. Other parties speculated that build out and operation will cost approximately two to three times the amount of the license. For a relatively small sized BTA (about a million people), the initial start up costs (including build out costs) for the 30 MHz C band are about \$18,000,000 to \$24,000,000. The winner of this license will have to form strategic alliances with the other BTA's to provide for a large service area with seamless roaming. The winner will have to compete with the winners of the MTA licenses which will presumably be ATT, Cellular One, Bell South or other similar companies. Thus, the winner of the BTA license will have to be a nimble negotiator with other BTA's, raise a large amount of money at interest rates substantially higher than that paid by the MTA competitors, not achieve the economies of scale of the MTA competitors, not have the same level of technical or marketing experience and/or expertise of the MTA competitors, and not have the deep pockets of the MTA competitors. Under these conditions, U.S. Signal concludes that a small, woman or minority owned business will almost certainly be crushed in the marketplace in spite of the 25% bidding credit and other minor advantages conferred upon it by the FCC.

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U.S. Signal understands that a small, woman or minority owned business will be crushed because the inherent nature of broadband PCS is not suited to small businesses. The small business will fail because it cannot provide the public with the same quality of service as the large players and it deserves to fail.

The question is; How does the FCC satisfy both the Congressional mandate to disseminate licenses to designated entities and still provide the public with the best PCS service that the competitive marketplace can provide ?

U.S. Signal advocates the following solution to this problem.

- 1) The MTA auctions occur before the BTA auctions.
- 2) Each winner of an MTA license must be required to acquire a BTA license outside of the area where it owns a MTA license.
- 3) The MTA license holder must sell 51% of this BTA to a designated entity.

U.S. Signal suggests that selling these 51% stakes be made in the following manner.

- 1) The FCC will sponsor an auction for designated entities in a simultaneous multi-round auction similar to the one proposed for the nationwide narrowband PCS licenses.
- 2) The top four or five bidders for each BTA will then qualify for the next stage.
- 3) The next stage involves a meeting between each qualifying bidder and the MTA selling the BTA. The MTA license holder will review each qualifying bidder in terms of experience, capability, financial resources, the quality of their business plan, the compatibility of the eventual goals and objectives in the PCS market, and general business acumen for becoming a suitable partner of the MTA.
- 4) The MTA will select from the four or five designated entities, the bidder which is best qualified to be its business partner.
- 5) If a designated entity is selected by more than one MTA owner, the designated entity will choose the MTA owner with which it wants to be paired. The unpaired MTA must then choose one of the remaining bidders as a partner. A designated entity cannot own 51% of more than one BTA offered in this procedure. The process continues until all the MTA owners are paired with a BTA owned by a designated entity.

If these auction rules are adopted, U.S. Signal foresees the following results:

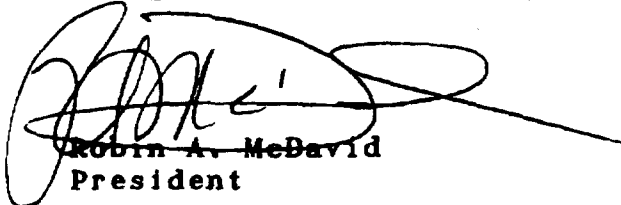
1. Because the owner of the MTA licenses will hold a 49% stake in the BTA license, it should have a strong interest in the success of the associated BTA entity. We expect that a Mentor-Protege relationship will develop between the two.
2. By forming a joint venture with an MTA license holder, the minority or woman owned BTA will have easier access to capital, have access to the marketing and technical expertise of the MTA, achieve some economies of scale in the procurement of supplies to build out the system, and have some name recognition by associating with the MTA's name. In short, this BTA should become a formidable competitor in its market and will also provide a better quality of service to the public.
3. In order to bid, the designated entities will have to compete for capital in the initial stage of this process. In the second stage of this process, they will compete on the basis of knowledge, expertise, reputation, and other intangible factors. We predict that only the best and most capable designated entities will succeed.
4. There will definitely be 102 designated entities holding broadband PCS licenses in BTA areas. Is this fair to non-designated entities? U.S. Signal predicts that if one could see the future and investigate the make up of the 102 eventual MTA license holders along with the 391 eventual BTA license holders (that are not subject to this procedure), one would find very few if any, designated entities. U.S. Signal feels that this minimal set aside is more than fair to the non-designated entities.
5. The U.S. Treasury will probably receive a slightly smaller dollar bid for each of the MTA's than they would have otherwise received without the sponsorship requirements.

In summation, by adopting the preceding rule changes for the broadband PCS auctions, the FCC should be able to facilitate increased competition, a high level of services to the public and satisfy the Congressional mandate to disseminate licenses among a wide variety of groups including small, minority, or women owned businesses. The only probable disadvantage of these rule changes is that the U.S. Treasury will receive a slightly smaller dollar amount from the MTA auctions than might otherwise be expected.

Sincerely,

*Thomas Hwang*

Thomas Hwang  
Director of Operations

  
Robin A. McDavid  
President

cc: FCC Commissioners